

## 3Q19 Highlights: Trade and economic fears drive sentiment to multi-year lows

- CFOs' views on the trajectory of North America's and Europe's economies hit six-year lows; those for China were low as well.
- Own-company optimism turned net negative for the first time in nearly seven years.
- Earnings growth expectations fell to a new survey low; capital spending and hiring fell to three-year lows; revenue rose slightly.
- Most CFOs cite quarterly earnings guidance, but some are providing less extensive or less frequent guidance, or none at all.
- Most investor relations analysis and communication activities still occur quarterly, even when earnings guidance does not.
- About 45% of CFOs said they have experienced activism in the last three years, mostly via direct management communication.
- Just over half of public company CFOs said they have considered, taken, or expect to take action specifically in response to shareholder activism—including many who say they have not recently experienced it.
- Private company CFOs cite substantially less extensive and less frequent activity around owner-related analysis and communications than do their public company peers.

**How do you regard the status of the North American, European, and Chinese economies?** Perceptions of North America fell to a six-year low, with 68% of CFOs rating current conditions as good (down from 79%), and 15% expecting better conditions in a year (down from 24%). Perceptions of Europe slid to just 5% and 2%; China sits at 20% and 11%.

**What is your perception of the capital markets?** Eighty-seven percent of CFOs say debt financing is attractive (up from 77%). Equity financing attractiveness fell for both public (from 40% to 31%) and private (35% to 34%) company CFOs. Sixty-three percent say US equity markets are overvalued, about even with last quarter.

**Overall, what risks worry you the most?** CFOs express even stronger concerns about the impact of US trade policy on global growth, and rising concerns about Brexit, the European economy, and the 2020 US elections. Talent is again the main internal concern, and there are rising concerns about data security and the need to adapt and innovate.

**Compared to three months ago, how do you feel about the financial prospects for your company?** The net optimism index declined from last quarter's +9 to -5 this quarter—the first negative reading in nearly seven years. Twenty-six percent of CFOs express rising optimism (30% last quarter), and 31% express declining optimism (21% last quarter).

**What is your company's business focus for the next year?** CFOs indicate a bias toward revenue growth over cost reduction (51% vs. 22%), investing cash over returning it (48% vs. 18%), current offerings over new ones (44% vs. 35%), and current geographies over new ones (62% vs. 22%).

**How do you expect your key operating metrics to change over the next 12 months?** YOY revenue growth expectations rose from 3.8% to 4.3%. Earnings growth slid from 6.1% to 5.6% (a new survey low), while capital spending fell from 7.7% to 3.6%, and hiring fell from 1.9% to 1.6% (both sit at three-year lows). Dividend growth rose from 3.7% to 3.9%.

**What is your strategy for providing earnings guidance?** Most CFOs say they provide quarterly guidance, but some are not providing guidance at all or are providing less extensive or less frequent guidance than they used to.

**How often does your company conduct IR activities?** Most IR-related analysis and communication still occurs quarterly, even when earnings guidance does not; addressing activism appears to be a substantial focus.

**Which forms of activism has your company experienced?** About 45% of CFOs said they have experienced shareholder activism in the last three years, with direct management communication the most common form.

**What actions are you taking specifically in response to activism?** Just over half of CFOs said they have considered, taken, or expect to take action—including many who say they have not recently experienced it themselves. Share repurchases were the most common action already taken; board changes were next.

**How often does your company conduct "owner relations" activities (private companies)?** Private company CFOs cite less extensive and less frequent activity around analysis and communications than do their public company peers.

**For your company, what are the most important advantages of being privately held (private companies)?** CFOs cited avoiding a short-term focus and better control/flexibility in decision-making as the top benefits of being private.

**What is your strategy for providing earnings guidance (private companies)?** Like their public company peers, private company CFOs mostly cited traditional quarterly guidance, but were less likely to be scaling back on depth and frequency.

**Prior to your current role, which other executive roles have you held (private companies)?** Non-CFO roles at public companies were the most common prior role.

\*Averages have been adjusted to eliminate the effects of stark outliers.

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